LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington St., Suite 301
Indianapolis, IN 46204
(317) 233-0696
iga.in.gov

FISCAL IMPACT STATEMENT

LS 7401
BILL NUMBER: HB 1001

NOTE PREPARED: May 1, 2023
BILL AMENDED: Apr 28, 2023

SUBJECT: State Budget.

FIRST AUTHOR: Rep. Thompson
FIRST SPONSOR: Sen. Mishler

BILL STATUS: Enrolled

FUNDS AFFECTED: **X GENERAL**
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: *State Budget:* The bill appropriates money for capital expenditures, the operation of the state, K-12 and higher education, the delivery of Medicaid and other services, and various other distributions and purposes.

K-12 Education Provisions

School Funding: The bill provides funding amounts for schools, and it establishes the Credential Completion Grant.

Choice Scholarships: It removes pathways for choice scholarship eligibility, and it increases the annual income maximum for choice scholarship eligibility.

Academic Performance Grants: The bill provides that a school corporation is eligible for an academic performance grant.

Curricular Materials: The bill prohibits school corporations a and charter schools from charging a fee for curricular materials to students. It provides that the parent of a student or an emancipated minor who attends an accredited nonpublic school and who meets financial eligibility requirements may request reimbursement of fees charged for curricular materials. The bill also establishes the Curricular Materials Fund.

Charter Schools: The bill requires a county auditor to distribute a portion of revenue received from an operations fund levy imposed by a school corporation located in certain counties to certain charter schools (excludes school corporations that are designated as a distressed political subdivision). It requires charter schools that receive a distribution of tax levy revenue to establish an operations fund and education fund under the same provisions that apply to school corporations. It provides that in order to receive a distribution of tax levy revenue, a charter school must adopt a budget for the school year following a public meeting.

Education Scholarship Account Funds: The bill establishes the Indiana Education Scholarship Account Donation Fund to accept donations for administration of the Indiana Education Scholarship Account Program.

Auditory-Verbal Accelerated Education Program: The bill establishes the Auditory-Verbal Accelerated Education Program to provide services to qualified resident children between the ages of three and six.

<u>*Higher Education Provisions*</u>

Adult Learners: The bill increases the total number of adult learner students at the Excel Centers for Adult Learners and Christel House DORS centers for whom the school may receive state funding.

Outcomes-based Formula Fund: The bill requires the Commission for Higher Education to create a separate higher educational operating funding outcomes based formula (funding formula) for Ivy Tech Community College. It requires, on or before July 1, 2023, Budget Committee review of all of the funding formulas created and approved by the Commission for Higher Education.

Kinsey Institute: The bill provides that state appropriations may not be used to pay for the administration, operation, or programs of the Kinsey Institute for Research in Sex, Gender, and Reproduction.

<u>*Health and Human Services Provisions*</u>

Medicaid Rate Schedule: The bill requires the Office of Medicaid Policy and Planning to: (1) develop a schedule for the review of Medicaid reimbursement rates; and (2) provide a copy of the schedule to the Budget Committee; not later than November 1, 2023.

Commission on Improving the Status of Children (CISC): The bill establishes the Commission on Improving the Status of Children Fund to support the staffing and operations of the Commission.

Child Development Programs: The bill repeals the distribution schedule for appropriations made for certain child development programs.

Reimbursement Rates: The bill deletes reimbursement rate parameters for reimbursement of managed care organizations under the Healthy Indiana Plan.

Health Assessment Fees (HAF) and Quality Assessment Fees (QAF): The bill extends the sunset of the collection of HAF and health facility QAF from June 30, 2023, to June 30, 2025.

Medicaid Oversight Committee: The bill requires the Medicaid Oversight Committee to review, consider, and make recommendations concerning all requests for new services and changes in existing services for the Medicaid program.

Water Testing Fund: The bill creates the Residential Water Testing Fund to test the water supply of an individual property owner of an eligible township.

<u>*Tax Provisions*</u>

Economic Development Tax Credits: The bill allows the Indiana Economic Development Corporation (IEDC) to certify an applicable tax credit that exceeds the maximum allowable amount after review by the Budget Committee.

Dependent Exemption: The bill allows an individual to claim an increased exemption amount for a dependent child in the first year in which the exemption amount may be claimed for the child.

Individual Income Tax Rate: The bill reduces the Individual Income Tax rate to 2.9% by 2027 and eliminates all trigger provisions in current law.

Earned Income Tax Credit: The bill recouples the state Earned Income Tax Credit qualifications with the Federal Earned Income Tax Credit qualifications under the Internal Revenue Code as in effect January 1, 2023.

Child Care Expenditures Tax Credit: The bill establishes a state tax credit for a taxpayer that makes certain qualified child care expenditures in providing child care to the taxpayer's employees.

Attainable Homeownership Tax Credit: The bill establishes the attainable homeownership tax credit for a taxpayer who makes a contribution to an affordable housing organization. It establishes the Medicaid oversight committee.

Fuel Tax Indexing: The bill extends provisions for the gasoline tax and the special fuel tax rates.

Innovation Development District: The bill requires a contractor that provides tangible personal property incorporated into real property in a project located in an Innovation Development District to maintain records of all state Gross Retail and Use Tax paid or collected during a state fiscal year. It adds state Adjusted Gross Income Taxes paid by an individual who is not an employee with respect to income received for services performed in an Innovation Development District for purposes of calculating income tax incremental amounts.

<u>*Pension Provisions*</u>

Special Death Benefit Fund: The bill repeals a provision that makes a state General Fund appropriation to the Board of Trustees of the Indiana Public Retirement System if the money available in the Special Death Benefits Fund is insufficient to pay death benefit claims.

Millie Morgan Retirement: The bill allows certain members of the public employees' retirement fund or Indiana state teachers' retirement fund to file an election to begin receiving retirement benefits while holding a position.

State Police Pensions: The bill changes the state police pre-1987 benefit and supplemental pension benefit calculation from being based on the sixth year of service to the fourth year of service.

Excess Reserves: The bill provides that if the amount of excess combined reserves in 2024 or 2025 exceeds $3 B the amount that exceeds $3 B is transferred to the pre-1996 account.

Study: The bill requires the Indiana Public Retirement System to study and report and present on certain topics to the Interim Study Committee on Pension Management Oversight before November 1, 2023.

Public Safety Provisions

Regional Public Safety Fund: The bill establishes the Regional Public Safety Training Fund, and it repeals provisions relating to the establishment of the: (1) Indiana Homeland Security Foundation; (2) Indiana Homeland Security Fund; and (3) Fire Training Infrastructure Fund.

State Police Salaries: The bill changes the number of years of service on which the salary matrix for state police employees is based to 15 years (instead of 20 years).

County Misdemeanant Fund: The bill requires the Department of Correction to deposit the amount appropriated for the County Misdemeanant Fund by a county's multiplier.

Secure School Fund: The bill provides that a part of state user fees shall be deposited in the Indiana Secured School Fund.

Court Provisions

Indiana Criminal Justice Institute (ICJI): The bill makes certain amendments to the Juvenile Diversion Grant Program, the Juvenile Community Alternatives Grant Program, and the Juvenile Behavioral Health Competitive Grant Pilot Program (programs). It requires grants for the programs to be administered by the Indiana Criminal Justice Institute in consultation with the Juvenile Justice Oversight Committee (oversight committee) and the grant process workgroup created by the oversight committee, taking into consideration the grant program report prepared and submitted to the Commission on Improving the Status of Children in Indiana by the oversight committee.

Court Fees: The bill provides that state user fees remaining after required distributions shall be distributed to the state General Fund (instead of the Court Technology Fund).

Pro Bono Fund: It requires the State Comptroller to deposit distributions of pro bono legal services fees received from the: (1) clerk of a circuit court; (2) clerk of a city or town court; or (3) Marion County small claims court; in the Pro Bono Legal Services Fund.

DCS Legal Counsel Study: The bill urges the Legislative Council to assign to an appropriate interim study committee the task of studying specific issues pertaining to the feasibility of the Department of Child Services contracting with private attorneys to perform legal services and provide representation in certain cases instead of employing staff attorneys within the Department of Child Services for those purposes.

State Offices and Administration Provisions

Data Sharing Agreements: The bill requires a researcher to execute a data sharing agreement that is approved by the Management Performance Hub (MPH) to receive access to confidential records.

State Comptroller: The bill provides that the Auditor of State is also known as the State Comptroller. It provides that, after June 30, 2023, the Auditor of State shall use the title "State Comptroller" in conducting state business, in all contracts, on business cards, on stationery, and with other means of communication as necessary.

General Assembly: The bill provides that the General Assembly shall convene: (1) on the second Tuesday after the first Monday in June for the first regular technical session; and (2) on the second Tuesday after the first Monday in May for the second regular technical session. It provides that a technical session is not required to convene if the President Pro Tempore and the Speaker jointly issue an order that convening is not necessary. The bill requires the General Assembly to convene no later than the fourth Monday in January after organization day. It repeals provisions relating to emergency sessions and makes conforming amendments.

Attorney General Contingency Fee Fund: The bill establishes the Attorney General Contingency Fee Fund.

Opioid Settlement Funds: The bill establishes the: (1) State Opioid Settlement Fund; and (2) Local Opioid Settlement Fund; into which funds received from opioid litigation settlements must be deposited.

Advisory Opinions: The bill provides that the Office of the Inspector General shall provide informal advisory opinions and that the opinions are confidential.

Budget: The bill allows the Budget Committee to submit the budget report and budget bill or bills to the Governor on or before the second Monday of January, or the third Monday of January in the year in which a gubernatorial election is held (instead of before that date).

Invasive Species Council: The bill extends the sunset for the Invasive Species Council and Fund from July 1, 2023, to July 1, 2031.

State Employee Health Care: The bill requires the State Personnel Department to require a contractor, when contracting for health care coverage for state employees, to use value based coverage.

Pay Plan: The bill requires the Director of the State Personnel Department to submit a revision or adjustment to a pay plan developed for state employees to the Budget Committee for review before the revision may take effect.

Regional Economic Acceleration and Development Initiative (READI): It provides that the READI program expires on June 30, 2026.

READI 2.0: The bill establishes the Regional Economic Acceleration and Development Initiative 2.0 Fund (READI 2.0). The bill requires the Indiana Economic Development Corporation (IDC) to develop a policy for a READI 2.0 program. It provides that money in the READI 2.0 Fund may be used to: (1) support the IDC's READI 2.0 program; and (2) provide grants or loans to support proposals for economic development and regional economic acceleration and development.

Outdoor Signs: The bill specifies that the county or municipality that did not approve the relocation of an outdoor advertising sign is responsible for compensation of the taking of the outdoor advertising sign. It provides that an owner may relocate an outdoor advertising sign that is subject to a pending eminent domain action.

Fund Repeals: The bill repeals the Public Mass Transportation Fund, Financial Responsibility Compliance Verification Fund, and Special Education Fund.

Property Tax Abstracts: The bill requires the Department of Local Government Finance to prepare an annual report and abstract concerning property tax data (instead of the Auditor of State).

Northeast Indiana Strategic Development Fund: The bill establishes the Northeast Indiana Strategic Development Fund administered by the Northeast Indiana Strategic Development Commission.

Special District: The bill amends a statute concerning powers and duties of a regional water, sewage, or solid waste district established under prior law.

Leave Conversion Pilot Program: The bill extends the judicial and legislative branch leave conversion pilot program through June 30, 2025.

Reversion: The bill provides that unexpended and unencumbered amounts appropriated to the Legislative Services Agency in a state fiscal year ending before July 1, 2024, do not revert to the state General Fund.

Transfer: The bill requires the State Comptroller to transfer $85 M from the Tobacco Master Settlement Agreement Fund to the State Construction Fund on July 1, 2023.

Federal Funds: The bill provides that unexpended and unencumbered amounts appropriated from the federal economic stimulus fund in the state fiscal year ending before July 1, 2023, do not revert to the state General Fund.

Economic Enhancement Districts: The bill provides that the legislative body of a first class city may adopt an ordinance to establish a special assessment district known as an economic enhancement district. It provides certain requirements for the ordinance and imposition of a special assessment. The bill requires the legislative body of the first class city that establishes an economic enhancement district to establish an economic enhancement district board.

Task Force: The bill establishes the funding Indiana's Roads for a Stronger, Safer Tomorrow Task Force.

FY 2023 Appropriations: The bill appropriates money for various purposes for the state fiscal year ending June 30, 2023.

The bill makes conforming changes.

Effective Date: Upon passage; July 1, 2022 (retroactive); January 1, 2023 (retroactive); June 29, 2023; June 30, 2023; July 1, 2023; January 1, 2024; July 1, 2024; January 1, 2025; January 13, 2025.

Explanation of State Expenditures: *State Appropriations:* The following summary table shows state appropriations that are provided in this bill for FY 2024 and FY 2025.

Appropriations by Function	FY 2024	FY 2025	For the Biennium
General Government	860,457,021	875,576,221	0
Corrections	931,398,882	937,590,189	0
Other Public Safety	450,623,250	453,513,191	0
Conservation and Environment	120,026,947	120,820,902	0
Economic Development	247,668,518	222,442,273	0
Transportation	45,000,000	45,000,000	0
FSSA Administration	19,975,512	19,975,512	0
Office of Medicaid Policy and Planning	3,903,646,727	4,376,393,188	0
Mental Health and Addictions	358,154,453	358,154,453	0
Family Resources	154,614,613	155,675,431	0
Aging Services	61,783,620	61,783,620	0
Disability and Rehabilitation Services	57,660,054	55,660,054	0
Department of Child Services	976,878,288	952,242,447	0
Public Health	109,864,654	189,782,513	0
Other Health and Human Services	97,449,395	108,307,135	0
State Student Assistance	400,544,066	400,544,066	0
Other Higher Education	1,768,327,943	1,788,412,553	0
Education Administration	168,886,735	172,386,735	0
Tuition Support	8,884,512,500	9,082,512,500	0
Other Local Schools	314,776,313	314,822,184	0
Teacher Retirement	1,035,200,000	1,066,300,000	0
Other Education	15,408,927	17,413,543	0
Distributions	50,500,000	50,500,000	0
Total GF Operating	**$21,033,358,418**	**$21,825,808,710**	**$0**
Higher Education Construction	49,520,852	63,520,852	0
Other Construction	964,498,991	662,064,969	0
Total Construction	1,014,019,843	725,585,821	0
Total GF (Operating + Construction)	**$22,047,378,261**	**$22,551,394,531**	**$0**
Lottery and Gaming Surplus	0	0	0
Other Dedicated - Operating	2,483,149,255	2,519,716,342	0
Other Dedicated - Construction	156,654,734	61,002,460	0
Tobacco Settlement	152,720,188	152,936,052	0
Federal	1,472,994,484	1,499,442,852	0
Total (Dedicated and Federal)	**$4,265,518,661**	**$4,233,097,706**	**$0**
Total - All	**$26,312,896,922**	**$26,784,492,237**	**$0**

K-12 Education Provisions

State Tuition Support Funding Formula: The bill establishes the grants and grant amounts included in the State Tuition Support Funding Formula for FY 2024 and FY 2025. The bill makes the following modifications from the current law formula as follows:

1.) The foundation amount increases from $6,235 in FY 2023 to $6,590 in FY 2024 and $6,681 in FY 2025.
2.) The complexity amount increases from $3,775 in FY 2023 to $3,983 in FY 2024 and $4,024 in FY 2025.
3.) The Special Education Grant amount for all special education categories increases by 5% annually.
4.) Funding for High Value Level 1 and High Value Level 2 courses increases by 5%.
5.) The Credential Completion Grant is included as part of the CTE Grant and is capped at $5 M annually.
6.) The Non-English Speaking Program (NESP) was previously a line-item appropriation but is now incorporated into the formula. Schools receive $384 or $550 per English language learner, depending on the score a student receives on the WIDA Consortium ACCESS assessment. In FY 2023, schools received $312 or $447 per English language learner.
7.) The Choice Scholarship eligibility is modified. Beginning in FY 2024, Choice pathway requirements are eliminated, and the maximum annual household income eligibility will be increased from 300% to 400% of the amount to qualify for the Federal Free or Reduced-Price Lunch (FRL) Program.
8.) The bill establishes the Academic Performance Grant. The grant has the following components:

   a. $1,500 for students who graduate one semester early;
   b. The Honors Grant as it exists under current law;
   c. $2,500 for each student who receives an associate degree while still in high school;
   d. $1,500 for each student who completes the Indiana College Core 30 while in high school;
   e. $40 for each dual credit or dual enrollment credit hour completed (with a maximum award of $1,200)

For each individual student, schools receive the highest grant calculated under items a through e. The Honors Grant is unchanged from current law and is calculated based on the graduating class in the previous fiscal year, as is the award for students graduating a semester early. Items c through e will be based on the graduating class from the fiscal year before the previous fiscal year, such that the FY 2024 calculation will be based on the FY 2022 graduating cohort. [The following table summarizes the estimated state tuition support expenditures by grant from FY 2023 through FY 2025.]

Estimated State Tuition Support Expenditures by Grant

Grant	FY 2023	FY 2024	FY 2025
Basic Tuition Support	$6,934,277,861	$7,263,011,427	$7,308,018,558
Special Education	$703,737,801	$745,914,955	$788,794,551
Career & Technical Education	$179,211,060	$204,766,003	$226,711,765
Honors/Academic Performance	$29,143,700	$49,104,140	$50,952,960
Choice Scholarship	$307,165,741	$530,099,570	$606,773,727
Non-English Speaking Program	$26,497,314	$35,673,624	$37,653,566
Mitch Daniels Scholarship	$1,220,000	$1,220,000	$1,220,000
Total	$8,181,253,476	$8,829,789,719	$9,020,125,127

FY 2023 estimates reflect the current tuition support formula; FY 2024 and FY 2025 estimates reflect the bill's proposed tuition support formula. Totals may not equal the sum of the grants due to rounding.

If the actual distribution exceeds the appropriation of $8,840,000,000 for FY 2024 and $9,030,000,000 for FY 2025, the difference, up to $25 M per fiscal year, can be transferred from the State Tuition Reserve Account in order to fund the difference. If the amount appropriated plus the $25 M (augmented appropriation) is still less than the actual distribution, the distribution would be reduced so that it equals the augmented appropriation.

Curricular Materials Fund: Under current law, the DOE reimburses public schools for some of the costs of providing free textbooks for students that are eligible for free or reduced-price lunches. Additionally, parents of students who meet the same eligibility criteria who attend nonpublic schools can also be reimbursed. Under the bill, the DOE is required to make distributions to public schools based on their ADM (not just students that are income-eligible) multiplied by the per-student average cost of curricular materials. The bill makes an appropriation for the distribution. Additionally, the bill could increase state General Fund expenditures by up to $39 M to meet the state's required maintenance of effort (MOE) for the Temporary Assistance for Needy Families block grant. The bill's provisions regarding curricular materials and MOE is a minor workload increase for both the DOE and FSSA.

Education Scholarship Account Funds: Current law allows the Treasurer of State to deduct 5% of the funds made available for the Indiana Education Scholarship Account (ESA) program to cover administrative costs. Under the bill, the administrative costs of the program would be paid through a direct appropriation from the General Assembly. The impact on state expenditures will depend upon legislative action.

Adult Learners: The bill increases the total number of adult learner students at Christel House DORS and the Excel Centers for whom the school may receive state funding by 625 full-time equivalent (FTE) students in FY 2024 and by 1,825 FTE students in FY 2025. Adult charter schools receive $6,750 per FTE adult learner. Therefore, state expenditures could increase by up to $4.2 M and $12.3 M in FY 2024 and FY 2025, respectively.

Dashboards: The bill requires the State Board of Education to include a school's grade 3 reading proficiency rate, as applicable. This requirement can be accomplished with existing resources.

Higher Education Provisions

Outcomes-based Formula Fund: These provisions require the Commission for Higher Education to develop a separate outcomes-based funding formula for Ivy Tech Community College. It also specifies that the Commission will make monthly distributions according to the applicable formula for each SEI. These requirements are within the capabilities of the Commission.

Kinsey Institute: The provision places a restriction on the use of state appropriations to Indiana University, but it does not alter the appropriation amounts. This provision has no fiscal impact.

Property Leases: This provision allows SEIs to acquire and improve real property from other SEIs by lease or sublease under certain circumstances. This provision will increase flexibility in capital improvement projects and may decrease the total costs associated with affected projects.

Health and Human Services Provisions

Opioid Litigation Settlements: The bill changes how funds are utilized from opioid litigation settlements. Instead of being placed into the Agency Settlement Fund, the funds will be divided based on the predetermined percentages into state and local unrestricted opioid settlement accounts and state and local abatement opioid settlement accounts. Payments will be distributed at least twice a year. The Budget Agency shall administer the state accounts and the Office of the Attorney General (AG) shall administer the local accounts.

The bill establishes the nonreverting State Opioid Settlement Fund which will consist of funds received by the state for opioid litigation. The funds will be divided based on the predetermined percentages from the opioid litigation settlements into the two state settlement accounts.

Reimbursement Rates: The bill facilitates reimbursement rate equalization among HIP 2.0 providers and providers of other Medicaid managed care programs, and establishes a legislative requirement for the FSSA to periodically review certain other provider reimbursement rates based on a schedule developed by FSSA within a four-year time frame. [New rates for Indiana Medicaid providers are set to take effect on January 1, 2024, equalizing provider reimbursement rates among all Medicaid programs. Federal rules enacted in November 2020 prohibited differential rates. The Indiana Medicaid program agreed to bring HIP 2.0 rates into alignment with other Medicaid provider payment rates in an appeal of a federal Medicaid ruling that Indiana Medicaid was out of compliance and subject to a recall of $500 M for inappropriate provider payments.]

The bill will increase physician services reimbursement to 100% of Medicare while limiting the state share of supplemental payments funded by the Incremental Hospital Assessment Fee for nonHIP physician services to 75% of Medicare.

Medicaid Oversight Committee (MOC): The bill establishes the 10-member MOC comprised of the chairs or ranking members of certain legislative committees, the Director of the Office of Management and Budget or a designee, and the Secretary of the Office of Family and Social Services or a designee. The MOC is to review, consider, and make recommendations on new services and changes to existing services offered through the state Medicaid program.

Child Development Programs: Any amount over $11,339,063 that is appropriated to the First Steps Program is distributed by statute. The repeal of this distribution will allow current legislative and administrative action to distribute all appropriated funds. [The First Steps Program was appropriated $18 M in both FY 2022 and FY 2023, requiring distribution of $6.7 M to the Division of Disability and Rehabilitative Services infrastructure (up to 10%), systems point of entry contracts (40% or more), and the rates of some services providers (50% or more)].

Prekindergarten Pilot Program: The bill redistributes some four-year-olds from the limited program eligibility group to the eligible group. The differences between the two groups include parent eligibility requirements, enrollment period, and the limit on the appropriation designated for the program. The impact of the bill on state spending is indeterminate and will be based on the actions of the legislature and the FSSA. [The prekindergarten program combines state and federal funds to provide prekindergarten services and wraparound child care. Child Care and Development Fund (CCDF) is allocated to the states based on federal formula.]

Water Testing Fund: The Residential Water Testing Fund is established to test the water supply, until the allocated funds are depleted, of an individual property owner in an eligible township in either Putnam or Montgomery counties. The fund is administered by the Indiana Department of Health (IDOH). The IDOH may not charge residents tested under this fund the standard water testing fee of up to $10 or related mailing and shipping charges.

Commission on Improving the Status of Children (CISC): The bill establishes a CISC Fund to support the executive director, staff, and operations of the CISC.

<u>Pension Provisions</u>

State Police Pensions: The bill changes the basic pension calculation for state police in the Pre-1987 plan from being based on the 6-year trooper salary to being based on the 4-year trooper salary. To the extent that the pension calculation based on a 4-year trooper salary under the new matrix is greater than the pension calculation of a 6-year trooper under the current matrix, pension and disability costs for members of the state police will increase, reducing the funded status of the plan, and requiring higher future appropriations for state police pensions. As of July 1, 2022, the Pre-1987 plan had 696 benefit recipients and 10 active members.

Millie Morgan Retirement: If members of PERF and TRF Pre-'96 Account begin drawing their defined benefit retirement annuities sooner than they otherwise would under current law, benefit payments from PERF and the TRF Pre-'96 Account would increase. PERF employers would stop paying employer contributions for any individuals who begin taking retirement benefits between the age of 65 and 69 with 20 years of service and remain employed, which would reduce their expenditures for employer contributions after the bill goes into effect. The combination of increased benefit payments and potential for reduced employer contributions would increase the unfunded liability of PERF and the TRF Pre-'96 Account. For PERF, the increased unfunded liability would be amortized over 20 years and paid for and accounted for under future employer contribution rates. The TRF Pre-'96 account is funded through state General Fund appropriations to the Pension Stabilization Fund.

Excess Reserve: The bill requires the Budget Agency to calculate the combined reserve balance at the end of FY 2024 and FY 2025. After the end of each year, it requires that the Budget Agency, after review by the Budget Committee, must transfer the amount of combined reserve balance that exceeds $3 B to the pre-1996 account within the Teachers' Retirement Fund. The distribution to the pre-1996 account will depend on the amount of the combined reserve balance at the end of FY 2024 and FY 2025.

Current law does not require any combined reserve balance distributions at the end of FY 2024. The provisions in the bill could potentially result in lowering the state General Fund by the amount of distribution required at the end of FY 2024. It could also reduce the potential amount of excess reserve available for distribution to Pension Stabilization Fund and Automatic Taxpayer Refund at the end of FY 2025. The fiscal impact on state General Fund will depend on the difference in total distributions from the reserves under the bill relative to the current law.

Special Death Benefit Fund: The bill removes the requirement that state General Fund appropriations cover a funding deficiency for the Special Death Benefit Fund. This change would reduce state General Fund expenditures if the Special Death Benefit Fund became exhausted. Instead of a state General Fund appropriation covering claims in that instance, IC 5-10-10-6 would apply. Under IC 5-10-10-6, if payment of a Special Death Benefit claim would bring the balance in the fund below $250,000, the Board of Trustees of the Indiana Public Retirement System would suspend claim payments for that month and the following two months, at which time the claims would be paid. The amount paid to survivors would be reduced and prorated if payment of the claims would exhaust the fund.

Pension COLA Study: If the Interim Study Committee on Pension Management Oversight (PMOC) were to hold additional meetings to address contribution rates necessary to fund cost-of-living increases for retirees and pension beneficiaries, there would be additional expenditures for legislator per diem and travel reimbursement for the committee members. Any additional expenditures must be within the committee's budget, which is established by the Legislative Council. The Indiana Public Retirement System will have increased workload to study and present on the required topics for PMOC.

<u>Public Safety Provisions</u>

Indiana Secured School Fund: The bill transfers funds that would have deposited to Indiana Safe Schools Fund to the Indiana Secured School Fund. Under current law, just over $400,000 is transferred from the State User Fee Fund to the Indiana Safe Schools Fund annually. The bill would instead transfer that $400,000 to the Indiana Secured School Fund. The bill also transfers any balance that remains in the Indiana Safe Schools Fund at the end of FY 2023 to the Indiana Secured School Fund.

State Police and Enforcement Officers' Salaries: The bill requires the Indiana State Police Board, Alcohol and Tobacco Commission (ATC), and Natural Resource Commission to change the salary matrix to be based on 15 years of service instead of 20 years of service. These new salary adjustments will have a significant increase in expenditures for the Indiana State Police, ATC, and the Department of Natural Resources.

Regional Public Safety Training Fund: The bill establishes the new Regional Public Safety Training Fund and transfers the funds from repealed provisions into the new fund. The new fund will manage the duties and responsibilities contained in the repealed provisions. An estimated $3 M, not including any additional encumbrances, would be transferred into the new established Regional Public Safety Training Fund from the repealed Indiana Homeland Security Fund and Fire Training Infrastructure Fund. [The bill also repeals the Indiana Homeland Security Foundation.]

The bill changes the distribution of the first $2 M of the Public Safety Fee from the Regional Public Safety Fund to the state General Fund. After the first $2 M, the distribution will be split evenly between the State

Disaster Relief Fund and the state General Fund. The fee collected $5.4 M in FY 2022. The bill also changes the distributions but not the collections of the First Responder License Plate Fee. These fees will be deposited into the new Regional Public Safety Training Fund.

<u>*Court Provisions*</u>

Indiana Criminal Justice Institute (ICJI): The ICJI shall administer grants for the Juvenile Diversion and Community Alternative Grant Program, and the Juvenile Behavioral Health Competitive Grant Program. The ICJI shall work with various agencies, divisions, and experienced practitioners in the mental health and behavioral health profession to administer grants, review applications, make recommendations, and establish performance measures. The ICJI shall adopt performance measures that apply to grantees under the program taking into consideration the plan submitted to the CISC by the Youth Justice Oversight Committee (YJOC). The bill will increase the workload of the ICJI.

Civil Legal Aid Fund: The bill removes the annual appropriation from the state General Fund for the Civil Legal Aid Fund. Currently, the Indiana Supreme Court partners with the Indiana Bar Foundation to distribute $1.5 M annually in grants to qualifying organizations.

Court Fees: The bill requires the remaining balance of the State User Fee Fund to be deposited in the state General Fund after the statutory distributions. As a result, this will reduce revenue to the Court Technology Fund. Under current law, the remaining balance of the State User Fee Fund is deposited in the Court Technology Fund. In FY 2022, an estimated $10.6 M was deposited in the Court Technology Fund. The Pro Bono Legal Service provisions will have no fiscal impact.

Indiana Supreme Court: The bill will reduce revenue to the Indiana Supreme Court for the Indiana Conference for Legal Education Opportunity program. The bill removes the $625,000 appropriation from the state General Fund.

Deputy Prosecuting Attorneys: The bill could result in new expenditures of approximately $1.18 M beginning in FY 2024 as a result of changes in salaries of deputy prosecuting attorneys. Deputy prosecuting attorney would be paid 70% of the salary of a full time prosecuting attorney. This provision would affect approximately 26 deputy prosecuting attorneys.

DCS Legal Counsel Study: The Legislative Council could assign to an appropriate interim study committee the task of studying issues pertaining to the feasibility of the DCS contracting with private attorneys to perform legal services and representation in child welfare cases. If the Legislative Council were to assign this topic to an existing committee and the committee were to have any extra meetings to address this topic, there would be additional expenditures for legislator per diem and travel reimbursement for the committee members. Any additional expenditures must be within the committee's budget.

<u>*State Offices and Administration Provisions*</u>

Regional Economic Acceleration and Development Initiative (READI) 2.0: The bill establishes the READI 2.0 program, effective beginning in FY 2024, which will be administered by the IEDC. The IEDC Board would be responsible for reviewing applications for grants and loans and may form a strategic review committee comprised of state employees and outside experts as part of the review process. The bill specifies criteria the board must consider when reviewing applications. In addition, the IEDC is required to develop a policy that establishes the framework for the program before implementation. Administrative expenses and other program costs would be paid from the READI 2.0 Fund. [The bill also provides that the READI program under current law expires at the end of FY 2026.]

READI 2.0 Fund: The bill establishes a new non-reverting state fund, known as the READI 2.0 Fund, to be administered by the IEDC. The fund will be used to support the IEDC's READI 2.0 program and provide grants or loans to development authorities and qualified nonprofit organizations. The fund will consist of appropriations, grants, gifts, donations, interest, and loan repayments.

Attorney General (AG) Contingency Fee Fund: The bill establishes the AG Contingency Fee Fund and allows the AG to collect a contingency fee to pay for litigation costs of the AG's office. The contingency fee is based on the amount received in a settlement agreement or court order, multiplied by the applicable contingency fee percentage. The maximum amount deposited in the fund may not exceed $2.5 M in a given state fiscal year. The bill provides that money collected from the fee is deposited in the Contingency Fee Fund, and the remaining recovered state funds are deposited in the Agency Settlement Fund. It allows expenses for administering the fund to be paid from the money in the fund. Also, the money in the fund will not revert to the state General Fund at the end of the fiscal year. As a result, this could reduce state expenditures for litigation costs.

Tax Expenditure Report: The bill removes the expiration date for the Tax Expenditure Report produced by the Legislative Services Agency (LSA). LSA can continue to publish the report within existing resources.

General Assembly: There could be minimal cost savings for legislative per diem and travel reimbursement if the General Assembly reconvenes in session later than the second Monday in January.

Augmentation: The Budget Agency must notify of the Budget Committee for each augmentation request that exceeds $100,000. This provision can be implemented with existing staff and resources.

State Comptroller: Under the bill, the Auditor of State's title officially changes to State Comptroller. The name change will result in a minor workload increase that can be implemented with existing staff and resources.

State Officer Salary: The bill increases salaries for the Governor, Lieutenant Governor, Secretary of State, State Comptroller, Treasurer of State, and the AG. The bill will increase state General Fund expenditures for salary and benefits by an estimated $225,000 in FY 2025 and by $472,000 in FY 2026. The bill sets the Governor's salary equal to the salary of a Supreme Court Justice beginning January 13, 2025. The other state officers' salaries are set as a percentage of a Supreme Court Justice's salary beginning January 1, 2025. State officers will receive the same salary increases as supreme court justices except in years when state executive branch employees in the same or similar salary bracket do not receive a statewide average salary increase.

Increasing the Governor's salary will also increase pension liabilities of PERF. Pension payments from PERF for retired former Governors and surviving spouses of former Governors will increase by an estimated $162,000 in calendar year 2025.

Voting Systems Technical Oversight: The bill changes the administration of the Voting Systems Technical Oversight Program Account from the Election Division to the Secretary of State. It is likely the Secretary of State would be able to administer the account within existing resources.

Indiana Gaming Commission (IGC): The bill clarifies the codes related to appropriations for the IGC from the Riverboat Wagering Tax deposited in the State Gaming Fund. These provisions will confirm the current practices, and it will not have any fiscal impact.

State Board of Accounts: The bill requires the Audit and Financial Reporting Subcommittee of the Legislative Council to ensure that rates charged for performing an audit by the State Board of Accounts do not exceed 80% of the market rate cost.

Invasive Species Council: The bill extends the Invasive Species Council expiration from July 1, 2023, to July 1, 2031. The council was established within Purdue University's College of Agriculture. The College of Agriculture receives state General Fund appropriations, but the extension of the council is not expected to increase state expenditures.

Federal Fund Reversion: The bill states that the balances in the account in the Federal Economic Stimulus Fund created for the American Rescue Plan Act that are unexpended and unencumbered at the close of FY 2023 do not lapse, but instead remain available for expenditure during FY 2024 or FY 2025 for the purpose for which the appropriation was originally made. The changes in the bill could reduce reversions received by the state General Fund at the close of FY 2023.

State Employee Health Care: The bill will increase workload for the State Personnel Department (SPD) to bid a contract for the state employees health plan built on a value-based insurance design (VBID). The initial process to incorporate VBID may require additional resources beyond the SPD's current appropriation. The additional funds and resources required could be supplied through existing staff and resources currently being used in another program or with new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions. [VBID alters cost-sharing by eliminating or reducing the insured's share for care with clinically proven benefits, and it increases costs to the insured for procedures with low therapeutic value. By reducing out-of-pocket expenses, VBID encourages insureds to seek care of chronic conditions and avoid procedures with low value.]

Funding Indiana Roads for a Stronger and Safer Tomorrow (FIRSST) Task Force: The bill establishes the 16-member FIRSST Task Force through June 30, 2024. The Task Force consists of 8 members of the General Assembly, 3 state employees, and 5 lay members. The bill is silent on expense reimbursement and per diem. The bill specifies study and reporting requirements for the Task Force, and it requires staffing by the LSA.

Fund Changes: This bill repeals the Public Mass Transportation Fund, and it will transfer an estimated $20 M in funds from the Public Mass Transportation Fund to the state General Fund at the end of FY 2023.

The Special Education Fund established under IC 20-35-4-4 is repealed in FY 2024. This represents a decrease in state expenditures largely dependent on appropriations that would have been made to the fund, if any. [$172,856 was appropriated to this fund in FY 2022 and FY 2023.]

The bill eliminates the Mental Health Centers Fund and increases the distribution of Cigarette and Tobacco Products Tax revenue to the state General Fund beginning in FY 2024. The Mental Health Centers Fund is estimated to receive about $2.2 M in FY 2024 and in FY 2025. Under the bill, this revenue would be deposited in the state General Fund.

Repealing the Financial Responsibility Compliance Verification Fund will transfer between $11.8 M and $13.2 M in revenue to the BMV Commission Fund during FY 2023. The bill will increase revenue to the

BMV Commission Fund in FY 2024 and thereafter from reinstatement fees collected by the BMV, which are estimated to be between approximately $1.9 M and $2.5 M per year.

The bill provides that the Wabash River Heritage Corridor Commission Fund does not revert to the state General Fund, and that the money in the fund is continuously appropriated. [The fund has not had a balance since FY 2011.] In addition, the bill continually appropriates revenue to the Economic Development Fund and provides that the Indiana Crime Guns Task Force Fund does not revert to the state General Fund.

Northeast Indiana Strategic Development Fund: The bill establishes a new nonreverting state fund, known as the Northeast Indiana Strategic Development Fund. The fund will be administered by the Northeast Indiana Strategic Development Commission and used to carry out the purposes of the commission. Money in the fund may not be used to expand or increase access to broadband.

Property Tax Abstracts: The bill transfers the state's administrative review and approval of a county's annual property tax abstract submission from the Auditor of State to the DLGF. These requirements represents an additional workload and expenditure on the agency.

Leave Conversion Pilot Program: This bill allows the Legislative Council and the Indiana Supreme Court to continue the Leave Conversion Pilot Program for the legislative and judicial branches of state government until FY 2026. The fiscal impact of this provision will depend upon legislative and judicial branch actions. Average annual expenditures for the pilot program have been $0.27 M since 2010.

Appropriations: The bill appropriates $3.091 B from the state General Fund in FY 2023. The appropriations include $700 M to the Pension Stabilization Fund, $800 M to the Department of Correction for correctional facility upgrades, $616 M to state educational institutions for capital projects, $500 M to the IEDC Dealing Closing Fund, $350 M to the Indiana Department of Administration for two capital projects, $115 M to the Department of Natural Resources, and $10 M to the Department of Education as a match for the Lilly Endowment literacy grants.

[The Deal Closing Fund may be augmented for projects with proposed capital investments of over $5 B, and 5% must be used for projects in counties with populations of less than 50,000.]

Transfers: The bill transfers $85 M to the State Construction Fund from the Tobacco Master Settlement Agreement Fund in FY 2024.

Next Level Indiana Trust Fund: The provision requires the Next Level Indiana Fund Investment Board to give preference to Indiana companies or Indiana venture capital firms when investing money in the fund. The policy would unlikely affect the amount of investments but it could influence which firms receive funds.

Explanation of State Revenues:

Tax Provisions

Individual Income Tax Rate: The bill expedites the phase-in of the Individual Income Tax rate cut. This will result in revenue loss to the state General Fund between FY 2024 and FY 2029.

Fiscal Year	State General Fund Impact (In Millions)	Percent Reduction in Income Tax Revenues
2023	$0.0	0.0%
2024	($116.9)	-1.5%
2025	($245.8)	-3.0%
2026	($319.3)	-3.8%
2027	($331.7)	-3.8%
2028	($275.3)	-3.1%
2029	($142.7)	-1.6%
2030	$0.0	0.0%

Current law provides that the Individual Income Tax rate is 3.15% in tax years 2023 and 2024. Current law further provides that if certain thresholds are met, then the tax rate would be phased down to 3.1% for tax years 2025 and 2026, 3.0% for tax years 2027 and 2028, and 2.9% for tax year 2029 and thereafter. The bill removes the thresholds and reduces the tax rate for tax year 2024 to tax year 2028.

Tax Year	Current Rate	Proposed Rate	Percentage Point Change from Current Rate	Percent Change from Current Rate
2023	3.15%	3.15%	0.00%	0.0%
2024	3.15%	3.05%	-0.10%	-3.2%
2025	3.10%	3.00%	-0.10%	-3.2%
2026	3.10%	2.95%	-0.15%	-4.8%
2027	3.00%	2.90%	-0.10%	-3.3%
2028	3.00%	2.90%	-0.10%	-3.3%
2029	2.90%	2.90%	0.00%	0.0%
2030	2.90%	2.90%	0.00%	0.0%
Note: The tax rate cut impact assumes that the threshold set in the current law for future years will be met.				

Earned Income Tax Credit (EITC): Recoupling with the federal EITC as in effect on January 1, 2023, would reduce state income tax revenue by an estimated $14.7 M to $20.2 M annually beginning in FY 2024.

The estimate assumes that between 516,000 and 539,000 Indiana filers will claim the credit. The range is based on the historic number of filers for the state EITC and Indiana filers for the federal EITC. The lower estimate assumes that there are some Indiana residents who will claim the federal credit but will not claim the state credit. In 2007-2010 when Indiana was last coupled with the federal credit, 21,600 to 25,000 more filers claimed the federal credit than claimed the state credit each year. The high estimate assumes that all Indiana filers who claim the federal EITC would also claim the state EITC. Indiana’s EITC equals 10% of the amount of the federal EITC claimed for the taxable year.

Dependent Exemption: The bill allows a taxpayer to receive a $3,000 exemption in the first year in which the taxpayer is able to claim an exemption for a child rather than a $1,500 exemption. Increasing the exemption for newly claimed children would reduce state General Fund revenues by an estimated $3.8 M in FY 2024 and FY 2025.

Gasoline Use Tax Distributions: The bill diverts GUT revenue that would have been deposited in the state General Fund in FY 2024 to the State Highway Fund. This would result in a transfer of approximately $75.5 M in General Fund revenue to the State Highway Fund in FY 2024.

Fuel Tax Indexing: Extending the sunset of the indexing factors for fuel tax rates through FY 2028 is expected to result in an estimated additional (1) $29 M in gasoline excise tax revenue and (2) $22 M in special fuel excise tax revenue each year between FY 2026 and FY 2027. Revenue increases in FY 2028 would depend on changes in the consumer price index as well as the individual personal income index and fuel consumption in the state. The following table shows additional revenue received from fuel taxes by extending the sunset of the indexing factors through the next biennium.

Tax Type	FY 2026	FY 2027
Gasoline Excise Tax	$28.6 M	$56.4 M
Special Fuel Excise Tax	$22.7 M	$45.3 M
Total Additional Revenue	$51.2 M	$101.7 M

Increases in fuel tax revenue would increase distributions to the State Highway Fund. Approximately 62% of fuel tax revenue is distributed to the State Highway Fund. The bill would increase State Highway Fund revenue by $32 M in FY 2026 and $63 M in FY 2027, for a total of $95 M in revenue during that time period.

Additionally, increases in special fuel tax revenue collections would increase revenue distributed to the Motor Carrier Regulation Fund. The estimated additional revenue the Motor Carrier Regulation Fund would receive each year is estimated to be approximately $0.35 M per fiscal year. Total additional revenue collections for the Fund are estimated to be approximately $1.02 M by the end of FY 2027.

Economic Development Tax Credits: The bill changes certain administrative guidelines related to IEDC from mandatory to discretionary. The bill reduces the annual cap from $300 M to $250 M for awarding IEDC certified tax credits. It allows the IEDC to certify a tax credit above the cap if the IDC determines that a tax credit should be certified. The certification above the cap is subject to a review by the Budget Committee. The applicable credits include: (1) Economic Development for a Growing Economy Tax Credit; (2) Community Revitalization Enhancement District Tax Credit; (3) Hoosier Business Investment Tax Credit; (4) Headquarters Relocation Tax Credit; (5) Redevelopment Tax Credit; (6) Film and Media Production Tax Credit. The bill requires that any repayment received from the Redevelopment Tax Credit must be deposited in the state General Fund and must be included in the calculation of the aggregate amount of applicable tax credits that the corporation may certify for a state fiscal year. This would have an indeterminable impact on the state General Fund in FY 2024 and after.

School Scholarship Tax Credit: The bill increases the total amount of School Scholarship Tax Credits that may be awarded from $16.5 M to $18.5 M for FY 2024 and after. [In tax year 2020, taxpayers claimed $9.4 M in credits.]

Attainable Home ownership Tax Credit: The bill establishes a nonrefundable tax credit for contributions made by a taxpayer to an affordable housing organization. The tax credit is effective in tax year 2024 through 2029, and the provision may decrease revenue deposited into the state General Fund by up to $4 M annually beginning in FY 2025 depending on the amount donated to eligible organizations.

The amount of the tax credit is equal to 50% of the actual amount donated up to $20,000. The tax credit may be applied to Individual Adjusted Gross Income (AGI) Tax, Corporate AGI Tax, and the Financial Institutions Tax. If the credit amount exceeds the taxpayer's state tax liability, the taxpayer may carry the credit forward for up to five years.

Employer Child Care Expenditure Credits: The bill creates a new nonrefundable tax credit for employers with 100 or fewer employees for capital expenses related to establishing childcare facilities for their employees. The credit amount would be the lesser of 50% of capital expenditures or $100,000. The tax credit is available for qualified expenditures between January 1, 2024, and July 1, 2025. The bill would reduce state General Fund revenue beginning in FY 2025 by an indeterminate amount, but likely less than the $2.5 M annual maximum credits allowable.

The credit may be applied to Individual Adjusted Gross Income Tax, the Corporate Adjusted Gross Income Tax, the Insurance Premiums Tax, the Nonprofit Agricultural organization Health Coverage Tax, or Financial Institutions Tax liabilities. The credit may be carried forward for three years. The portion of the credit would be recaptured if the child care facility closes, changes ownership without the new owner consenting to take on the recapture liability, or if the child care facility enrolls children of people who are not employees in the five years after the end of the taxable year in which the credit is allowed.

Cigarette Tax Revenue Stamp Allowance: The bill increases the stamp discount for cigarette distributors from $0.013 to $0.02 per cigarette beginning in FY 2024. This provision would reduce total cigarette tax revenue by an estimated $2.4 M in FY 2024 and $2.3 M in FY 2025. Of those amounts, the estimated reduction in revenue to the state General Fund is $1.4 M in FY 2024 and $1.3 M in FY 2025.

Innovation Development Districts: The bill includes in the calculation of the gross retail base period amount and gross retail incremental amount the amount of Sales and Use Tax incurred and paid by a contractor with regard to tangible personal property incorporated into real property located in the innovation development district. It also includes in the calculation of the income tax base period amount and income tax incremental amount the state adjusted gross income taxes paid by individuals who receive income for services performed in the district but are not employees in the district. These provisions could increase the amount of incremental state income tax and sales tax that would be transferred to local innovation development district funds.

Health and Human Services Provisions

Hospital Assessment Fees (HAF) and Quality Assessment Fees (QAF): The bill extends the sunset date for the HAF, the Incremental HAF, and the Health Facility QAF by two years to FY 2025. These fees generated approximately $1.05 B in FY 2022 and leveraged an estimated $4.6 B in federal funds dedicated to Medicaid expenditures.

Fee	FY 2022 State Revenue	FY 2022 Federal Dollars Leveraged	Total
HAF	$533 M	$1.03 B	$1.57 B
Incremental	$361 M	$3.25 B	$3.61 B
QAF	$159 M	$309 M	$467 M
Total	**$1.05 B**	**$4.6 B**	**$5.65 B**

*90% Federal Match Rate

Of the total HAF revenue, 74% is used to increase Medicaid hospital reimbursement up to specified limits. Unused funds in this allocation are distributed to the Hospital Medicaid Fee Fund. The remaining 26% of the HAF revenue is distributed to the state General Fund to offset other Medicaid costs incurred by the state. Revenue from the Incremental HAF is deposited in the Incremental Hospital Fee Fund to be used to partially fund the state share of the Medicaid expansion population receiving services within the Healthy Indiana Plan (HIP). The bill makes changes to the reimbursement of nonHIP health services by only funding physician services up to 75% of Medicare. Of the Health Facility QAF revenue, 70.6% is used to increase targeted Medicaid nursing facility reimbursement rates, while approximately 29.4% is distributed to the state General Fund for other Medicaid services.

State Offices and Administration Provisions

State Board of Accounts (SBOA): This bill provides that each taxing unit and soil and water conservation district shall be charged an amount equal to 50% of the actual direct and indirect cost of performing an examination for certain individuals engaged in making examinations or investigations, but not to exceed $400 per day. The bill's provision would result in a taxing unit being charged $225 more per day by SBOA than the current rate, which is $175 per day.

Board of Veterinary Medicine Fees: This provision repeals the investigative fee to oversee practitioners. This has no fiscal impact because a fee was not established by the Board.

Explanation of Local Expenditures:

K-12 Education Provisions

Curricular Materials Fund: Distributions from the fund to a public school will be equal to the statewide average cost of curricular materials per student as determined by DOE, multiplied by the school's fall count of average daily membership (ADM). A public school may incur unreimbursed curricular material expenses if this distribution amount is less than the amount needed to pay the cost of all curricular materials provided to each student by the public school. Other public schools could experience a decrease in expenditures if they have relatively high rates of students not paying rental fees or if they currently receive less from DOE in curricular material reimbursements for eligible students than what the curricular materials actually cost.

Health and Human Services Provisions

Opioid Settlement Fund: The bill allows for transfers of all or part of distributions to another city, county, or town to be used for the benefit of both communities. The bill also establishes the nonreverting local opioid settlement fund which will consist of funds received by the state for opioid litigation. The funds will be divided based on the predetermined percentages from the opioid litigation settlements into the two local settlement accounts. Any impact to settlement funding from this provision will depend on local action.

Hospital Assessment Fee (HAF) and Health Facility Quality Assessment Fee (QAF): Local government-owned hospitals and nursing homes would continue to be assessed the HAF and QAF.

Pension Provisions

Millie Morgan Retirement: The combination of increased benefit payments and potential for reduced employer contributions would increase the unfunded liability of PERF and the TRF '96 Account. The increased unfunded liability would be amortized over 20 years and paid for and accounted for under future employer contribution rates.

Local Offices and Administration Provisions

State Board of Accounts (SBOA): This bill's provision may increase the expenses that taxing units pay to SBOA for conducting examination and investigation of their accounts.

Outdoor Advertising Signs: This provision permits the owner of a sign to relocate their sign under the existing sign relocation statute if an eminent domain action is pending on July 1, 2023, and (1) the parties have not entered into an agreement, or (2) final judgement has not been entered.

Under the sign relocation statute, the county or municipality must compensate the sign owner if (A) the zoning ordinance is not amended as necessary, (B) a variance is not approved, or (C) the sign cannot be relocated. For each billboard subject to this provision, the county or municipality that did not approve the relocation within the market area could be required to pay between $2,000 to $10,000 for each standard billboard and between $20,000 and $30,000 for each digital billboard in full and just compensation to a billboard owner. These costs could increase above these ranges to the extent foregone lease revenue is included in the calculation.

County Council Districts: This bill's provision requires a county with a population of more than 185,000 and less than 300,000 to opt in to certain provisions regarding the establishment of county districts by passing a resolution by a majority vote of its executive body not later than September 1, 2023. Counties that have a population within this range and choose to opt in will have a nine-member county council (instead of the standard seven-member council). This provision may result in an increase in administrative workload and fiscal costs for county governments should they choose to opt in since the county would need to redraw the county council districts to account for the addition of the two districts. The actual fiscal impact will depend on the action of the county executives in the eligible counties.

Based on 2020 U.S. Census data, three counties fit within this population range: Elkhart, Tippecanoe, and St. Joseph. Of these three, St. Joseph County is the only county that currently has a nine-member county council because it fits within the current population range that statue allows for a nine-member county council. However, based on the bill's provision, if the county executives in St. Joseph County do not opt in to keeping their current county council configuration by September 1, 2023, they would in effect reduce their county council from nine members to seven members.

Explanation of Local Revenues:

Tax Provisions

Fuel Tax Indexing: Increases in fuel tax revenue collections would increase local revenue. Local units of government receive approximately 38% of fuel tax revenue. This provision could increase local revenue by approximately $19 M per year between FY 2026 and FY 2027, for a total of $57 M in additional revenue during that time period. Revenue increases in FY 2028 would depend on changes in the consumer price index as well as the individual personal income index and fuel consumption in the state.

Dependent Exemption: Increased exemptions for dependent children in the first year that they are claimed will reduce local income tax revenue by an estimated $1.9 M in FY 2024 and FY 2025.

Health and Human Services Provisions

Opioid Settlement Fund: The bill provides that if any settlement documents, court order, assurance of voluntary compliance or any other form of agreement requires at least 70% of the settlement proceeds to be used for specified purposes, any additional settlement funds must first come from funds that would be distributed from the state Unrestricted Opioid Settlement Fund. This could increase funds distributed to qualifying local units twice a year when the payments are made.

The bill modifies the threshold from$1,000 to $5,000 for when settlement distributions must be made to the county instead of a city or town, which will result in more funding for counties and less for cities and towns (this threshold applies only to the abatement share of distributions for cities and towns and not to the unrestricted share of distributions). In CY 2022, there were 190 cities and towns that distributed settlement funding to their county due to the $1,000 threshold requirement. If the threshold was set at $5,000 for CY 2022, this number would increase to 359 cities and towns. The bill requires state attorney fees to be deducted from the state's Opioid Settlement Fund which will reduce the amount available to allocate to cities, towns, and counties. Outside attorney fees will be deducted from the agency settlement fund. The bill also subjects distributions to a bankruptcy court order or bankruptcy settlement. The bill allows cities, towns, and counties that receive a settlement to sell their distribution, as long as they have a majority vote of the legislative body, which could provide additional funds.

Public Health Funding: In counties with a city health department, the amount of public health funding distributed to the city health department will be determined under the new public health funding formula. The county and city fiscal bodies must enter into an interlocal agreement to distribute the city health department's per capita share of funding from the county to the city health department.

Education Provisions

State Tuition Support Funding Formula: The bill's various changes to the State Tuition Support Funding Formula will increase public school revenue over FY 2023 revenue by an estimated $425.4 M in FY 2024 and $538.9 M in FY 2025.

Operations Fund Revenue Sharing: Under the bill, beginning in 2025, school corporations in Lake, Marion, St. Joseph, and Vanderburgh counties will be required to share a portion of their operations fund property tax revenue proportionally with any charter school (excluding virtual and adult charter schools) that is

1. Located in the same county as the school corporation; and
2. Enrolled a student who lives in that school district and does not receive more than 50% of their

education virtually.

The incremental property tax levy amount, calculated as current year operations fund property tax levy minus the average operations fund property tax levy in CY 2021-CY 2023 (the base levy amount), is the only portion of the levy that would be shared with charter schools under the bill. The bill also specifies that Gary Community School Corporation would not share any of its operations fund revenue with charter schools as long as it retains its designation as a distressed unit. Using FY 2023 student-level ADM data and CY 2025 estimates of school corporations' operations fund levies, LSA estimates that school corporations would lose $9.3 M and $12.5 M to charter schools in CY 2025 and CY 2026, respectively. Over time, as levies increase over the base levy amount, the amount school corporations transfer to charter schools will continue to increase.

Charter and Innovation Network School Grant Program: In FY 2023, eligible schools received $1,250 per ADM under the program. The bill increases the funding to $1,400 per student, which would increase charter school revenue by an estimated $4.5 M to $6.0 M in both FY 2024 and FY 2025.

Teacher Appreciation Grants: The bill extends the teacher appreciation grant program until the end of FY 2025. It also allows the schools to provide a supplemental award to teachers who serve as mentors to teachers who have less than two years experiences. A school may not use more than 10% of the total grant to provide supplemental awards.

Adult Learners: The bill is estimated to increase the revenues for Christel House DORS centers and Excel Centers for Adult Learners by up to $4.2 M and $12.3 M in FY 2024 and FY 2025, respectively. [See *Explanation of State Expenditures* for more information.]

Public Safety Provisions

County Misdemeanant Fund: This bill changes the population multipliers used to compute the each county's distribution from the County Misdemeanant Fund. As proposed, the population multipliers would be the single component of the distribution formula. These new population multipliers will result in a statewide shift in the revenue distributed among counties by about $366,160. About 29 counties will receive more revenue and 63 would receive less.

Local Offices and Administration Provisions

Economic Enhancement Districts (EED): This provision permits the Indianapolis/Marion County City-County Council to create an EED within the downtown mile square. The EED will have an eight member board that will be able to place special benefits assessments on real property within the EED to pay for economic enhancement projects. The fiscal impact depends on whether the council creates the EED, the size and boundaries of the EED, and the amount of the assessments placed on the real property by the EED board.

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources:

Fiscal Analyst: Heath Holloway, 317-232-9867; Jessica Harmon, 317-232-9854.